



Investing in rural people

Fostering inclusive outcomes in sub-Saharan African agriculture

Improving agricultural productivity and expanding agribusiness opportunities

by
David Suttie
Rui Benfica
IFAD

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Abstract

Despite strong per capita income growth, the structure of sub-Saharan Africa's economies has not changed markedly in recent decades. In spite of a rapidly growing labour force and urbanizing populations, employment growth in rural areas in general and in non-farm sectors in particular has been slow, and poverty levels in those areas remain relatively higher than in urban areas. So, the key question is: how to catalyse economic transformations that foster inclusive and sustainable development? This is where the role of agriculture is key, given that the overwhelming majority of the population across the continent depends on it as a livelihood source. The case for increasing agricultural productivity to accelerate transformation, investment and industrialization is strongly supported by well-established conceptual frameworks and historical empirical evidence. Though recent gains have been encouraging, agricultural productivity in sub-Saharan Africa still lags behind other regions. The relatively low productivity has led to a loss of competitiveness in agricultural exports and the declining share of the region's participation in global agricultural trade. Nonetheless, the potential of building on recent gains and developing an agribusiness sector that is responsive to and benefits from the work of smallholder farmers is enormous. This requires the prioritization of two main areas for policy and investment: (i) supporting the emergence of a modern agro-industrial sector; and (ii) developing the potential of smallholders to engage in high-value activities across agricultural value chains.

Introduction

Background and objectives

The countries of sub-Saharan Africa (SSA) have been experiencing significant economic growth in recent years. Indeed, six of the world's ten fastest growing economies in the 2000s were located on the continent. Several others were growing at a rate that was close to or above the 7 per cent required to double economic output within a decade (ACET 2014). The resumed growth of SSA economies and a range of emerging internal and external dynamics have important implications for opportunities in agriculture as a driver of inclusive and sustainable development.

Several factors have contributed to this growth performance. First, macroeconomic reforms and stronger institutions, new technologies such as mobile phones and innovative information and communication technologies (ICTs), and higher commodity prices have been critical. Second, over the past decade, many sub-Saharan African economies have undergone important transitions, mostly driven by a more interconnected, dynamic and complex global environment, as well as other domestic changes, including increased urbanization, rising urban incomes and the associated higher demand for food. Looking forward, renewed interest in agriculture from traditional donors, as well as new players such as the BRICS (Brazil, Russia, India, China and South Africa) and private investors, in addition to bulging youth populations, land scarcity, environmental degradation and climate change, all present new challenges and opportunities for the rural economies and the agricultural sector of the continent in the coming decades.

While these new dynamics and sustained economic growth create opportunities for improving household livelihoods and reducing poverty, they are not sufficient to drive a development process that is inclusive and sustainable. For the latter to happen, rural and structural transformations will be necessary. Unfortunately, despite strong per capita income growth, the structure of SSA¹ economies has not changed markedly in recent decades. The level of technology used and productivity achieved remain relatively low across economies, and production and exports are still centered on a relatively narrow range of mostly raw agricultural commodities. Furthermore, despite growing urbanization levels, job growth in both rural and urban areas – in non-farm sectors in particular – has been slow, and poverty levels in rural areas remain relatively higher than in urban areas. So, the key question is: *how to generate economic transformations that foster inclusive and sustainable development in rural areas?* This is where the role of agriculture is key, given its role in providing livelihoods for the overwhelming majority of the population and its ability to catalyse wider growth in both rural and urban areas.

1. In this note, "sub-Saharan Africa" refers to Africa south of the Sahara, excluding South Africa.

The notion that agricultural development is an integral component and catalyst of wider structural transformation is now widely accepted, and is supported by evidence outlined in the literature from much of Asia and Latin America during the last 40 years (HLPE 2012). The mechanisms by which agricultural growth promotes transformation in the wider economy include: (a) higher agricultural productivity of labour, which means that labour can be released from agriculture into employment in relatively better remunerated rural and urban non-agricultural sectors; (b) increased demand for agricultural inputs and services, which stimulates local production and marketing of inputs such as fertilizer and production tools, as well as local provision of services; (c) expanded marketing engagement of smallholder farmers in agricultural value chains, which stimulates commercial distribution and processing activities at the local level; (d) increased profits and exports from agricultural production, which finance imports of key technology and capital that can be invested in non-farm sectors; and (e) higher smallholder incomes, which raise demand for non-food consumer goods and services, thus boosting the diversification of the rural economy with all the resulting multiplier effects.

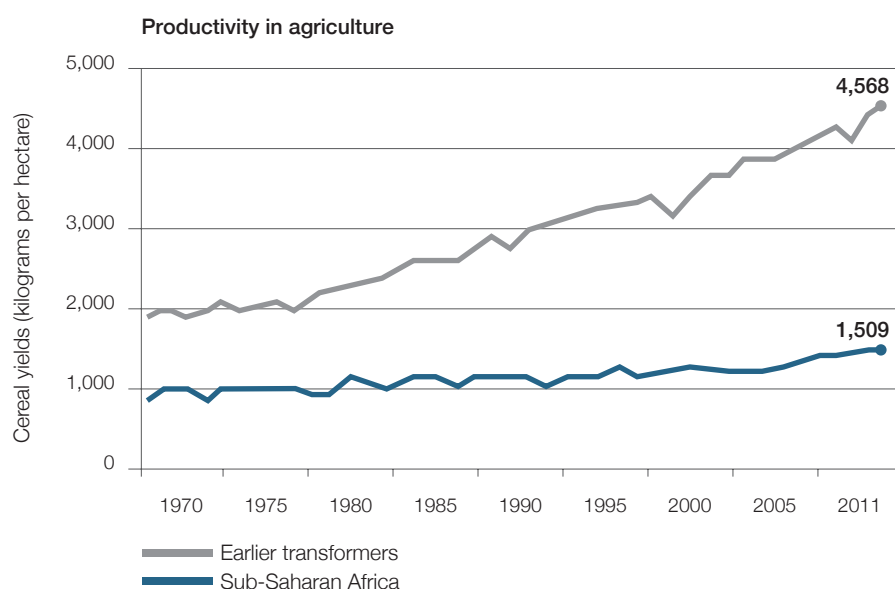
The case for increasing agricultural productivity to accelerate transformation, investment and industrialization is strongly supported by well-established conceptual frameworks and historical empirical evidence. Notably, the African Center for Economic Transformation (ACET) in its first continental review of progress towards transformation, states and concludes that raising agricultural productivity has to be a key part of the economic transformation agenda (ACET, 2014).

This paper is focused on how to foster inclusive outcomes in SSA agriculture through improving agricultural productivity and expanding agribusiness opportunities. The analysis is structured into seven sections, including this introduction. Section 2 looks at the importance of closing productivity gaps in sub-Saharan African agriculture. Section 3 identifies emerging trends, pointing to significant opportunities in agriculture as a driver of transformation and inclusive development. Section 4 discusses the centrality of smallholders in the rural transformation process if it is to be inclusive. Section 5 considers the issue of linking smallholders with agribusinesses for win-win outcomes. Section 6 discusses the key programmatic/investment and policy elements to be considered for generating inclusive outcomes through agro-industry. The final section identifies some key questions to guide the discussion forward.

The need to close productivity gaps in sub-Saharan African agriculture

Given the context, it is not surprising that interest in the issue of agricultural productivity gaps across SSA, and between SSA and other developing regions, has intensified in recent years (Lobell et al. 2009; Neumann et al. 2010; and van Ittersum et al. 2013). To illustrate the scope of the issue, consider that in West Africa, farmer yields from rain-fed crops are reported to be typically below one half of their potential (Nin Pratt et al. 2011). ACET (2014) estimates cereal yields across sub-Saharan Africa to be significantly lower than the yields of the benchmark of comparator early transforming countries from Asia and Latin America (figure 1).² Low productivity of SSA agriculture is broadly a consequence of difficulties faced by producers in accessing inputs (including seeds and fertilizer, modern technologies and training), weak institutional capacity, inappropriate policies and investments, and distorted markets. It is also a result of land degradation in many areas, the increased impacts of climate change and relatively low population densities as compared to other regions.

Figure 1: Gaps in African agricultural productivity (1970-2011)



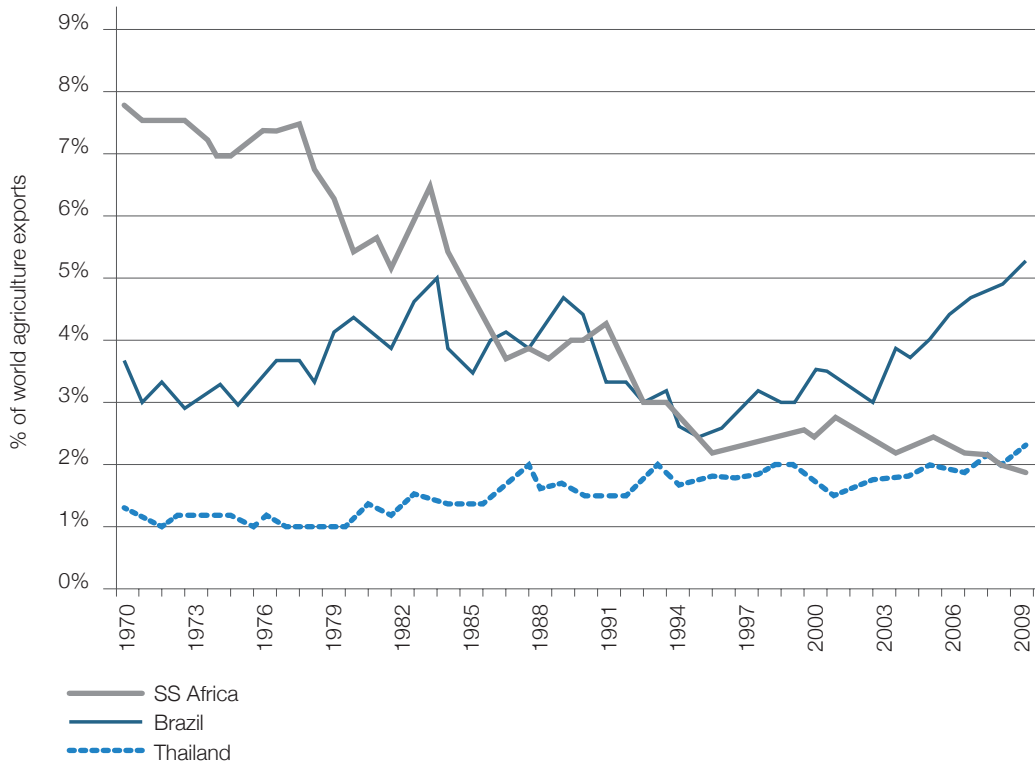
Source: World Development Indicators.

2. Early transforming countries in this analysis comprise Brazil, Chile, Indonesia, Malaysia, Singapore, South Korea, Thailand and Viet Nam.

Historically, low productivity and yield gaps have been among the main constraints facing small and medium-scale farmers as well as agribusiness in SSA. In most countries, low levels of productivity have contributed to low and – in some cases – even decreasing levels of competitiveness. Low smallholder yields and returns to labour are largely due to the lack of use of productivity-enhancing inputs such as modern seeds and fertilizers, and have important implications for household food security and nutrition. More broadly, slow productivity growth limits the ability of countries to increase their share in, and reap the benefits from, international trade. This is reflected in the fact that Africa’s share of global agricultural exports has declined to such a level that many fast-transforming countries – such as Brazil, Indonesia and Thailand – each individually export a larger value of agricultural products than all of SSA countries combined (World Bank 2013), as illustrated in figure 2.

Despite these gaps and the sub-optimal performance of agribusiness and smallholder agriculture in SSA to date, there are reasons for optimism. In recent years, agricultural growth rates have shown improvements in many SSA countries, as have rates of productivity growth for both land and labour. That growth has, to the most part, been driven by a friendly macroeconomic environment – notably, reduced “taxation” of the sector and better sector-level policies and public investment in several countries, which have promoted increased private investment among both smallholders and agribusiness. Responsiveness to market opportunities, driven by higher incomes and urbanization, has also surely played a role. In 2000s, SSA agriculture produced 45 per cent more per hectare compared to the early 1990s. Over the same period, cereal yields rose by 40 per cent and labour productivity increased by 24 per cent (Wiggins 2014). Going forward, the potential for SSA agriculture is significant. In particular, rising incomes and urbanization across the continent are creating new opportunities for the commercialization of agriculture, with opportunities for growth in both downstream and upstream business activities. Indeed, SSA agriculture and agribusiness are predicted to become a US\$1 trillion industry by 2030 (World Bank 2013). The growth of an inclusive agribusiness sector can play a key role in catalysing an economic transformation that brings decent employment and rising incomes among groups who have traditionally been left behind by non-inclusive growth processes. In order for this to happen, the role of smallholders will have to be central and the focus of attention of policies and interventions.

Figure 2: Shares of world agricultural exports (1970-2009)



Source: FAOSTAT.

Emerging trends point to significant opportunities for agriculture as a driver of structural transformation and inclusive development

Various trends in SSA food systems suggest investments across food value chains would lead to inclusive economic growth, which would exert strong downward pressures on levels of food insecurity and malnutrition. First, it is notable that there is a growing tendency among rural people, including the poor, to increasingly rely on purchased and prepared food. In East and Southern Africa, for instance, Dolislager et al. (2015) find that rural households purchase 44 per cent of the food they consume, with 95 per cent of the rural poor purchasing at least 5 per cent of their food. In fact, evidence suggests that expanding and changing patterns in demand for food in SSA are being driven by sub-segments of the poor, and that the rural market for purchased food is actually larger (in total volume) than the urban one in some subregions (ibid.). The growing reliance of both urban and rural poor people on food purchases suggests that investments to close productivity gaps at different stages along food value chains – in addition to driving wider non-agricultural sectoral growth linkages – would reduce the costs of food to local consumers and lead to significant improvements in food security and nutrition. Crucially, the larger share of incomes that poor people in general devote to food purchases implies that poor people would gain most from increased efficiencies and productivity improvements in any segments of agricultural and food value chains (including storage, transport, processing, packaging, marketing, etc.) that would ultimately reduce prices to consumers.

Second, new findings show that, among both lower income rural households as well as other households in both rural and urban areas, shares of spending on non-staple foods now make up the majority of food expenditure. This is happening in SSA along similar lines to the changes observed in Asia. In East and Southern Africa, Dolislager et al. (2015) estimate that the share of non-grains in the total food expenditure of an average urban household is 66 per cent, compared to 61 per cent for the average rural household, and 54 per cent among poor rural households; in Asia the respective figures are 74 per cent (urban households), 63 per cent (rural households) and 62 per cent (rural poor). This raises the prospect of enhanced commercialization and incomes among rural producers – in particular smallholders – which have historically been precursors of structural transformation, industrialization, and reduced poverty and hunger in several of the emerging and developed countries of today. The extent to which policies and investments enable SSA smallholders to benefit from these opportunities – as well as coherent planning which facilitates inter-sectoral and inter-spatial (i.e. across the traditional rural-urban divide) knock-on growth and employment benefits – will be a key determinant in the prospects for development that is truly inclusive across the continent.

The translation of these trends into real opportunities for inclusive transformations is potentially threatened by SSA's continued reliance on food imports. Certainly, the extent to which changing and expanding demand for food across the continent is met by local smallholders will go a long way to determining the inclusiveness and sustainability of the transformations process – notwithstanding the role that responsible investment from large domestic and international actors will also surely play. Notably, there is evidence of high dependency on food imports in many SSA countries, particularly coastal states, seemingly related to urbanization. Agricultural policies in the past two decades have emphasized cash crops for export, leading to a growing dependence on imports of staple foods such as cereals and pulses. In 2012, SSA countries spent US\$37.7 billion on food imports (Montpellier Panel 2014). An Africa-wide study by the Food and Agriculture Organization of the United Nations (FAO) for the period 2000-2005 showed that the majority of Africa's low-income countries (mostly in SSA) were net food importers, importing US\$17 worth of food per capita per year. These countries have had difficulty covering their food import bills, as their export revenues were limited. Furthermore, in many SSA countries, more than 50 per cent of small-scale farmers (73 per cent in Ethiopia) are net buyers of staple grains (IIED 2013). In some countries, past policies have shaped the demand for food in a way that will be difficult to reverse. Policies that have encouraged food imports, focusing on satisfying the demand of urban consumers for affordable food rather than supporting the livelihoods of rural producers, have led to a situation where consumers have become accustomed to imported varieties at the expense of local varieties. As a result, locally produced varieties often suffer from an inferior image in many SSA cities, for reasons that extend beyond quality and taste (Demont 2013). Reversing these trends and creating opportunities for local smallholders – themselves overrepresented among the poor and food-insecure populations – to respond to emerging commercial food market opportunities will be a central element of any inclusive economic transformation process.

The central role of smallholders in agricultural transformation

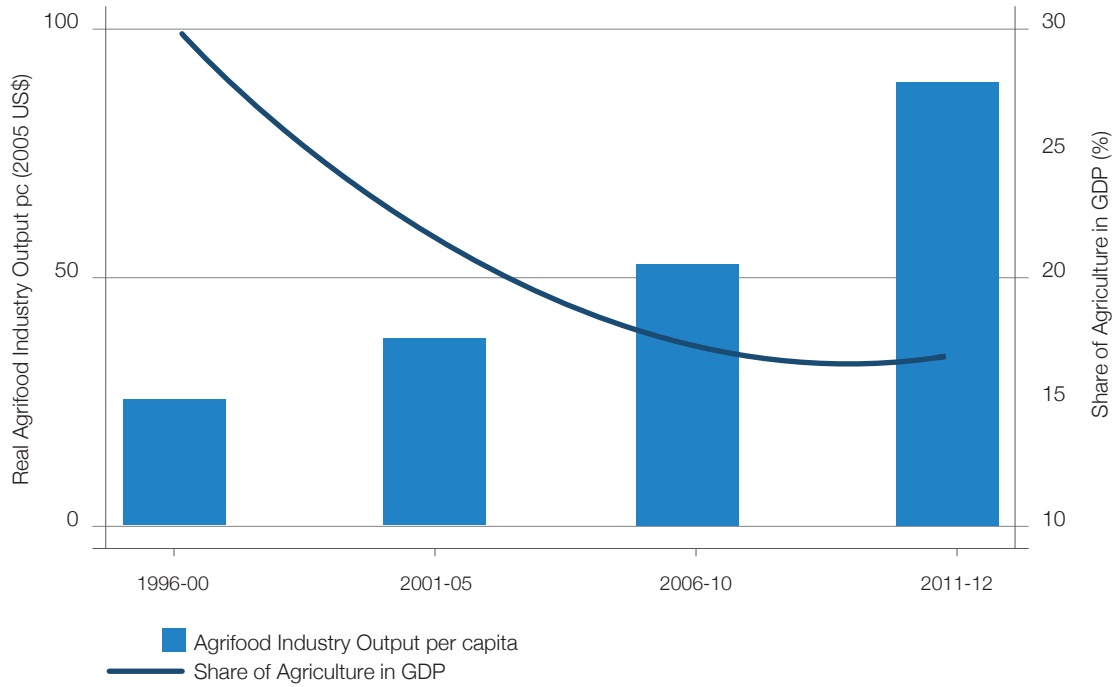
Smallholder family farmers dominate the agricultural landscape in SSA. Smallholder units represent an estimated 80 per cent of farms in the region and contribute up to 90 per cent of food production in some countries (Wiggins and Keats 2013). The contribution smallholders already make to food production is significant, despite the enormous limitations they face in accessing and using new technologies, inputs and technical support, as well as in accessing output market opportunities. The potential returns of addressing these limitations and fostering a rural business environment where smallholders are linked with larger agribusinesses are expected to be significant in terms of improving food security, boosting rural incomes and increasing the profitability of agribusinesses.

Empirical evidence and the historical record of the achievements of smallholders as key drivers in economic transformations in Asia during the Green Revolution underpin the importance of smallholders for sustainable agricultural growth and rural development. Despite the generally disappointing rates of agricultural productivity growth in SSA, Wiggins (2009) noted that 13 countries doubled their production in the two decades since the 1980s, although some started from a very low base. On the one hand, countries where smallholder farmers largely dominate the agricultural sector – such as Burkina Faso, Ghana, Niger and Mali – have been among the strongest performers of this group. On the other hand, countries with a relatively smaller share of small farms – such as Namibia, South Africa and Zimbabwe – have performed much more modestly. It is also noteworthy that a strong body of research, covering a wide variety of countries and time frames, demonstrates the comparative advantage of smallholder family farmers in terms of land productivity performance.³ Thus, there are robust reasons to suggest that smallholders will play a pivotal role in linking with agribusinesses to promote inclusive and transformative outcomes in African agriculture.

Productivity improvements in agriculture as a whole and among smallholders in particular are very important at the beginning of structural transformation. As the latter process unfolds, the development of agro-industry becomes a key element of industrialization. Agro-industry, defined as a component of industrial activity where value is added to agricultural produce through processing and handling operations, is typically a significant component of the emergence of industry. This is demonstrated by the tendency of agribusiness, which includes agro-industry and related services, to grow as a country's GDP rises during structural transformation and then decline at much higher levels of development (de Janvry 2009). Thus, agriculture, in addition to helping kick-start industrialization, also plays an important role in supporting the growth of the emerging industrial sector. In fact, over the period 1996/00 to 2011/12, as the share of agriculture in GDP fell, real agro-industry output per capita increased in SSA (figure 3).

3. For example, see: FAO and OECD 2012; Wiggins 2009; Lipton 2006; and Sen 1966.

Figure 3: Structural Transformation and Agrifood Industry Trends, 1990/00-2011/12



Source: IFAD, based on UNIDO and WDI.

Linking agribusinesses with smallholders for win-win outcomes

High and rising demand for agricultural products, both domestically and internationally, creates opportunities for agribusinesses along entire agricultural value chains. Given the predominance of smallholder family farming in SSA agriculture, linking agribusiness operators with smallholders will surely be a key aspect for realizing these opportunities. The potential benefits – profits, increased incomes, inclusive growth, and sustainable and inclusive transformation – of creating these linkages are multiple.

Bearing this context in mind, it is encouraging that the scope for working with smallholders is promising. First, new technologies have the potential to reduce the costs of doing business with smallholders and create opportunities to increase their productivity and incomes. Second, there is strong support among the public sector, donors and development agencies for inclusive agribusiness practices that prioritize integrating smallholders into value chains. Finally, the expansion of business partnerships with smallholders and their organizations in recent years has led to much insight and knowledge-sharing in the area of engaging with smallholders and promoting inclusive food value chains.

However, multiple challenges still exist. First, functioning, mutually dependent partnerships between agribusiness operators and smallholders depend upon the support of a broader inclusive business environment that provides the necessary infrastructure, institutions, training and access to functional and fair markets for both inputs and outputs. Unfortunately, in the rural areas of SSA, these elements are rarely in place. Second, building trust between agribusinesses and smallholders is not always straightforward. Smallholders may question whether agribusinesses will honour price and purchasing commitments, while companies may be concerned about farmers' ability to meet volume and stringent quality standards, or the possibility of side selling in cases where monopsony agreements characterize the relationships. In order to overcome challenges and foster inclusive, win-win outcomes, appropriate policies and investments must take into account a range of interrelated considerations.

Generating inclusive outcomes through agro-industry

Based on the above analysis, two clear avenues for policy and investment emerge. First, there is the need to create the right conditions to facilitate the emergence of agro-industry. Those conditions include:

1. an enabling institutional set-up, including financial services, transparent contractual arrangements, investment regulations and inclusive governance of producer organizations;
2. the necessary infrastructure, especially relating to transport, market and storage;
3. cluster and territorial approaches to coordinate private and public investment at the regional level; and
4. functional and inclusive market and trade policies, including the provision of price information services, safeguards against the concentration of market power and investment incentives.

Second, it is important to promote smallholder competitiveness in high-value activities. This requires:

1. enhanced investment in infrastructure, education, training and health for rural people, as well as in developing gender-balanced producer organizations and creating political spaces for these groups to take part in planning and decision-making processes;
2. pro-active state involvement in public-private-producer partnerships (4Ps, ensuring that conditions governing the design and practice of these arrangements are transparent and responsive to the interests of smallholders, and facilitate the building of trust between agribusiness operators and smallholders;
3. adoption of policies that facilitate the access of smallholders to high-value market segments, for instance, by channelling information to smallholders and their organizations, simplifying registration processes for smallholders, or formally stipulating that supermarkets and others should source a defined proportion of goods from local producers/smallholders; and
4. socially inclusive approaches to building rural capacities, which are sensitive to the needs and workloads of women, target young farmers, and extend opportunities for these groups to access finance, land and other productive assets.

Pertinently, opportunities for agribusinesses to benefit from interacting with smallholders exist across several agricultural value chains – from the sale of inputs, such as seeds and chemical inputs, to the procurement of outputs for processing or marketing into domestic or external markets. Indeed, in seeking to realize such opportunities, agribusinesses frequently participate in multiple stages, or even play a role throughout entire value chains by means of vertical coordination arrangements. Furthermore, as consumer awareness around social and environmental dimensions of global value chains increases – and national, regional and global trade standards require greater transparency at each stage and relationships between

smallholders and larger traders, even consumers, are established – the need for value chains to be inclusive, fair and responsive to the needs of smallholders is greater than ever before.

The next sub-sections discuss the key elements required to foster inclusive outcomes through integrated value chains.

Strengthening value chain links

Fostering stronger connections between the different nodes in agricultural value chains will expand agribusiness opportunities and lead to inclusive outcomes for smallholders and other players. A range of approaches is available to agribusiness operators to achieve this. At the input supply stage, training and employing people as input vendors in distribution networks is an effective means of promoting inclusivity (GIZ 2012). These activities can be linked to the provision of training, improved seeds and finance to smallholders, in order to enable this group to sustainably meet expected quotas and quality standards in their marketing commitments.

At the processing and marketing stages, upgrading storage facilities, employing modern technology to distribute timely information, and addressing infrastructure challenges (in partnership with other public and private actors, if possible) all help foster inclusive and tightly linked value chains.

These approaches can build mutually beneficial and synergistic knock-on gains. For example, when smallholders have access to attractive markets for their products, they are better placed to invest in improving their productivity. This, in turn, enables agribusiness companies to profitably sell production factors such as machinery, improved seeds, fertilizers and irrigation systems. This potential is particularly growing in SSA, where input markets are estimated to increase from around US\$8 billion a year in 2010 to US\$35 billion by 2030 (Sanghvi et al. 2011, cited by GIZ 2012).

Building partnerships

New alliances and new forms of partnership are required as agricultural market opportunities expand, the dynamics surrounding production and consumption change, and the interest in the sector widens among a range of public and private actors. Equitable, fair and transparent partnerships across the different stages of value chains can produce win-win outcomes for agribusiness companies and smallholders. When this happens, inclusive outcomes are more likely to be achieved: i.e. economic empowerment for smallholders and sustainable business models for agribusinesses, both contributing to inclusive and transformative economic processes. A range of different types of partnerships and conditions are required to bring this reality into being (IFAD 2013).

Farmers' cooperatives/associations have played a notable role in mitigating the risks involved in partnerships between smallholders and agribusiness companies. From the position of smallholders, these organizations have empowered members to deal with larger private actors on a more even footing, enabling them to safeguard their rights and effectively bargain for their interests (Kelly 2012). From the position of agribusiness, working with farmers whose produce is aggregated, rather than supplied by multiple diverse farming units, provides greater security and sustainability, as scale and quality can be better ensured. From a

society-wide perspective, partnerships that are based on fair and transparent conditions between agribusiness operators and smallholders and their organizations promote sustainable rural livelihoods and food security. Ultimately, they form the basis of long-term viable business relationships, which create incentives for preserving natural resources and adopting longer-term sustainable models of agricultural development.

Support from the state is vital to underpin such partnerships. Providing and maintaining vital infrastructure – either directly or through partnerships with private actors and development agencies – is indispensable to enabling smallholders to effectively and profitably access input and output markets, information and training, energy and finance. Government cofinancing and guarantee arrangements are needed in many cases to reduce the potential risks for agribusiness operators – particularly when upfront investment requirements are large and time frames are lengthy. Stable macroeconomic policies, property rights, contract enforcement and transparency are also needed to create the institutional environment that encourages agribusiness companies to do business with smallholders (GIZ 2012).

Upgrading smallholder skills and knowledge

In order for agribusinesses and smallholders to work together to leverage emerging opportunities and address challenges, the adoption of modern, knowledge-intensive and entrepreneurship-oriented models of farming are required. This implies the need for smallholders in particular to acquire a set of skills and competencies that have not always been readily available in rural education and vocational training programmes. Unfortunately, in many SSA countries this is not yet happening. It is striking that – given the potential returns of enhancing agricultural productivity – education and technical/vocational training that is relevant to farming livelihoods in many cases remains absent, inaccessible or significantly inadequate.

Vocational training systems must target smallholders and be tailored to the realities and challenges they face in the contexts where they operate. Ensuring effective two-way channels for information to flow between smallholders and research and extension organizations will be a key element in the process. To facilitate this, supporting and interacting with farmer organizations is an important entry point. Also important is facilitating stronger linkages between extension services and research. This calls for innovative, inclusive and participatory approaches. In this context, models such as farmer field schools (FFS) have shown some success, though questions remain over the cost-effectiveness and speediness of knowledge diffusion (Feder, Murgai and Quizon 2004). The importance of facilitating the provision of soft skills such as negotiating, business management, marketing and communication has also been highlighted, as has addressing gender dimensions related to agricultural production and marketing, access to productive resources and inputs, and land rights.

Enabling institutional arrangements

In some contexts, institutional and risk-sharing arrangements provide agribusinesses and smallholders with opportunities to overcome constraints to working together, such as missing or inefficient inputs and output markets. A prominent example is contract farming, which can provide smallholders with the means to access market opportunities as well as finance,

inputs, technology, information and training. For agribusinesses, these arrangements offer more predictable supply, consistent quality of output, as well as mitigation of risks such as the diversion of production to other buyers, provided enforcement can be ensured.

Specific measures are needed to ensure inclusive benefits from contract farming arrangements, and various policies and strategies should be prioritized with this in mind. Certainly, it would be regrettable if involvement in contracts was biased towards larger-scale and generally wealthier farmers, who may be perceived as having lower average costs and being more reliable suppliers. The potential livelihood impact of this scenario could be serious in situations where knock-on effects of increased spending and demand in local economies lead to higher food and input prices, excluding smaller farmers from contracts and increasing the likelihood of them falling into poverty. Furthermore, in many instances, agribusiness operators may be significantly large to adopt a position in local markets that gives them excessive market power. This may result in low prices being offered to farmers and, therefore, the benefits of contract arrangements being skewed away from local people.

To promote inclusive outcomes, there are two main roles that must be played by the public sector. The first relates to ensuring that agribusiness companies do not abuse their market power. In this regard, suitable anti-trust legislation is required to prevent aggressive pricing by firms holding dominant market positions. Most developed countries have this type of legislation in place and it is encouraging that more developing countries are following suit.⁴ The second role to be played by public actors involves enabling smallholders to increase their suitability for contract selection. A key element of this is supporting the rights of farmers' organizations to bargain for their interests and support their members' business activities with appropriate institutional, regulatory and fiscal policies (FAO 2004; Stockbridge, Dorward and Kydd 2003). The involvement of public actors and development agencies in brokering contracts can also be effective in terms of promoting inclusive benefits.

Furthermore, while contract farming is a promising institutional arrangement that helps overcome some of the key challenges faced by smallholders and agri-businesses, not all crops are suited to it. Several crop-specific factors that affect transaction costs at different stages of the value chain dictate the adequacy of the model in relation to specific crops. Those factors include:

- Production characteristics of a commodity, such as (i) labour intensity, (ii) economies of scale in production and (iii) level of return to inputs and complex production management;
- Marketing/processing characteristics of a commodity, such as (i) high quality standards/specificity, (ii) high perishability, (iii) high value to weight/volume, (iv) low value to weight/volume, (v) export market orientation, (vi) many potential buyers of farm production, and (viii) processing requirements before sale.

How these factors affect transaction costs in specific value chains will ultimately determine the suitability of contract farming to specific crop sub-sectors (Benfica 2012; Benfica et al. 2002; Delgado 1999).

4. For example, the Government of Malawi has long-established guidelines for dispute resolution in agricultural **contracts**, with an officer from the Minister of Labour available for mediation.

Including disadvantaged groups

One of the most effective means of ensuring inclusive outcomes from growth and transformation processes is creating decent jobs for rural people, including minorities and disadvantaged groups. This need is particularly pressing in SSA, where it is projected that 25 million young people will enter the labour force annually by the year 2025 (World Bank 2013). Indeed, poor progress in job creation, despite relatively strong and sustained economic growth, has been cited as a major reason why growth and rising per capita incomes in many of the least developed countries (LDCs) – including those in SSA – has often not led to significant reductions in poverty (UNCTAD 2013). This has important implications for the role of agribusinesses. Providing incentives for agribusiness companies to create decent jobs for local people is critical, as is ensuring the provision of suitable and high-quality education and training in rural areas. Effective labour legislation and transparent inspection frameworks, along with working with agribusinesses to sensitize and build capacities on the issue of decent employment, should also be prioritized.

Specific – and in many cases entrenched – gender gaps in rural areas with respect to household work distribution and access to productivity-enhancing resources, services and training mean that rural women are less likely to enjoy the benefits of doing business with agribusinesses.⁵ As a result, empowering rural women to enhance their bargaining power and participation in decision-making processes and economic opportunities is a matter of priority (Ross et al. 2015). This will enhance their ability to access productive resources (particularly land), knowledge, farm and non-farm employment opportunities, and entrepreneurship or management skills, thus better positioning them to participate in business activities with agribusiness companies either as employees or as small businesses (small farmers or non-farm entrepreneurs) through backward or forward linkages. Evidence demonstrates that women’s empowerment has significant benefits for the nutritional and educational outcomes of children (Smith and Haddad 2000; UNICEF 2011; Ruel and Alderman 2013). Efforts to strengthen rural people’s organizations, and ensure that women and other minorities and disadvantaged groups are involved in decision-making processes, are an important element of this strategy that has already shown significant success.

Other avenues of ensuring that local communities benefit from the activities of agribusiness operators include: fair land rental payment by companies that engage in direct production; agribusiness investment in local infrastructure, provision of schools and health facilities through social responsibility programmes (SRP), and generation and utilization of local tax revenues for local community development.

5. Benfica (2012) reports that women in Mozambique are significantly less likely than men to access contract farming opportunities in tobacco and cotton, and earn lower returns than men when such access is made possible.

Key issues for the way forward

The analysis above presents the elements that are crucial in efforts to foster inclusive outcomes in SSA agriculture, improve agricultural productivity, expand agribusiness opportunities and address other challenges faced by smallholders. The discussion of the issues in this note can better inform the way forward if placed in the context of specific experiences and challenges faced by SSA countries, and the policies, interventions, and particular public and private investments attempted or planned to support smallholders and agribusinesses. In particular, the key role of agricultural development in kick-starting structural transformation has been highlighted, as has the potential to build on recent gains in agricultural productivity. The growing significance of agro-industry in the course of structural transformation has also been detailed, as have strategies to support the emergence of the sector, while ensuring that it involves smallholders in a manner that promotes inclusive development and poverty reduction.

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